Exhibit B

\

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission File Number 0-22999

Tarragon Corporation
(Exact name of registrant as specified in its charter)

Nevada	94-2432628
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
423 West 55th Street, 12th Floor, New York, NY	10019
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 949-5000

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12 (g) of the Act:
10% Cumulative Preferred Stock, $.01 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☑ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☑ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☑ No

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the price of the last trade as reported by the National Association of Securities Dealers Automated Quotation System as of June 30, 2006 (the last business day of registrant's most recently completed second fiscal quarter) was an aggregate value of $202,982,506 based upon a total of 14,655,777 shares held as of June 30, 2006, by persons believed to be non-affiliates of the Registrant. The basis of this calculation does not constitute a determination by the

Table of Contents

PART I

Unless otherwise stated or the context otherwise requires, "we," "our," "ours" and "us" refers to Tarragon Corporation ("Tarragon") and its combined businesses on or prior to the date of the proposed spin-off described in "Item 1 – Business," below, "Tarragon Homes" refers to the entity named "Tarragon Homes Corporation," whose shares will be distributed to Tarragon stockholders in the proposed spin-off, and its business following the proposed spin-off, ***and "Sage" refers to "Sage Residential, Inc.," which will be our name following the proposed spin-off, and our business following the proposed spin-off.***

ITEM 1. BUSINESS

We are a homebuilder and real estate developer with over 30 years of experience in the real estate industry. During 2006, we delivered 2,105 homes with an average price of $230,000 per home. At December 31, 2006, we had:

- 35 residential for-sale communities with 4,560 homes or home sites in inventory or under development in six states;
- a backlog of signed contracts for 717 homes valued at more than $244 million;
- six rental communities with 1,775 units under development or reposition; and
- 22 communities with 4,682 units in our development pipeline.

Also at December 31, 2006, we owned and operated over 14,600 apartments in 12 states, including more than 11,000 in our rental communities and over 3,300 in our condominium conversion communities.

On February 9, 2007, we filed a preliminary proxy statement related to the proposed pro rata, tax-free spin-off of our homebuilding and real estate development business (the "Homebuilding Business"). The proposed spin-off is subject to a number of conditions, including, among others, the completion of final documentation, the receipt of regulatory approvals and the receipt of an opinion from our tax counsel that, for U.S. federal income tax purposes, the spin-off will be tax-free to us and our stockholders under Section 355 and 361 of the Internal Revenue Code. We expect to complete the spin-off by mid-year 2007.

If the spin-off is consummated, we will distribute to each holder of our common stock one share of common stock of Tarragon Homes, which will be a new publicly traded company that will operate the Homebuilding Business. We will continue to operate the real estate services business (the "Real Estate Services Business") following the proposed spin-off. We believe that the spin-off will provide both us and Tarragon Homes with direct and differentiated access to the capital markets, allow each company to grow through acquisitions appropriate to its business and provide each company with the opportunity to align management incentives with the performance of its business.

Corporate History

We were incorporated in Nevada in 1997. We are the successor by merger to Vinland Property Trust, a public real estate investment trust formed in 1973, and National Income Realty Trust, a public real estate investment trust that began operations in 1978. Beginning in 1995, we began to develop new rental apartment communities in Texas and later in Florida, Georgia, Tennessee, South Carolina, Alabama, and Connecticut. In 1998, we began our first conversion of an apartment property to condominiums, and two years later, acquired the land for our first high-rise residential development in Fort Lauderdale, Florida. From 2001 through 2006, we devoted significant capital and efforts to expanding our homebuilding activities.

Table of Contents

TARRAGON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. MINORITY INTERESTS

In February 2000, Tarragon acquired the interests of Robert C. Rohdie and his affiliates in ten apartment communities. Mr. Rohdie, our partner in the development of these projects, contributed his equity interests to Tarragon Development Company, LLC, ("TDC"), an operating entity we formed, in exchange for a preferred interest in TDC of $10 million. Mr. Rohdie joined Tarragon as the president and chief executive officer of Tarragon Development Corporation, a wholly owned subsidiary of Tarragon, and became a member of our board of directors in February 2000.

Mr. Rohdie's preferred interest in TDC earned a guaranteed return until September 30, 2006, when he converted his preferred interest into 668,096 shares of our common stock and 616,667 shares of our 10% cumulative preferred stock in accordance with the terms of the operating agreement of TDC. Mr. Rohdie received distributions of $770,366, $623,556 and $421,889 in 2006, 2005 and 2004, respectively, in payment of his guaranteed return.

During 2006, we purchased the interests of our outside partners in two separate consolidated entities. In January 2006, we acquired the 15% outside member's interest in Adams Street Development, L.L.C. for $1.7 million. In April 2006, we purchased the 15% interests of the outside member in Block 99/102 Development, L.L.C. for $5 million.

During 2005, we purchased the interests of our outside partners in eight consolidated separate entities. In January 2005, we acquired our partners' interests in One Las Olas, Ltd., 100 East Las Olas, Ltd., East Las Olas, Ltd., and Metropolitan Sarasota, Ltd. for $14.8 million. In April 2005, we purchased the 30% outside member's interest in Fenwick Tarragon Apartments, L.L.C. for $1 million. In May 2005, we purchased the 30% outside partners' interest in Guardian-Jupiter Partners, Ltd., for $5 million. We purchased the 30% outside member's interest in Summit/Tarragon Murfreesboro, L.L.C. for $1.5 million in September 2005. Lastly, also in September 2005, we purchased the 30% outside member's interest in Lake Sherwood Partners, L.L.C. for $3.4 million. The excess of the aggregate $11.9 million purchase prices over the carrying amounts of the minority interests was capitalized to the basis of the properties.

In July 2004, we purchased the preferred interests of our outside partner in Antelope Pines Estates, L.P., and Woodcreek Garden Apartments, L.P. for $9.5 million. We sold Antelope Pines in December 2004 and Woodcreek Garden in January 2005. In accordance with SFAS No. 144, the operating results of these properties, along with the gains on sale, have been presented in discontinued operations for all periods presented in the accompanying Consolidated Statements of Income. See NOTE 13. "ASSETS HELD FOR SALE."

Table of Contents

TARRAGON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. RESTATEMENT OF PRIOR-PERIOD FINANCIAL STATEMENTS

Subsequent to the issuance of our consolidated financial statements for the year ended December 31, 2005, we determined that our consolidated statements of cash flows for the years ended December 31, 2005 and 2004 should be restated to reclassify certain items among operating, investing and financing activities as shown below. The restatement does not affect the net change in cash for either of the years ended December 31, 2005 and 2004 and has no impact on our consolidated balance sheets, consolidated statements of income and related earnings per share amounts or consolidated statements of stockholders' equity.

	For the Year Ended December 31, 2005		For the Year Ended December 31, 2004	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Consolidated Statements of Cash Flows				
Cash Flows from Operating Activities				
Amortization of deferred borrowing costs	$ 19,029	$ 18,899	$ 3,794	$ 3,794
Distributions of earnings of unconsolidated partnerships and joint ventures	—	38,128	—	10,082
Change in homebuilding inventory	(569,741)	(558,599)	(122,584)	(122,182)
Change in contracts receivable	49,999	49,999	43,214	(21,677)
Change in restricted cash	7,097	4,518	(6,407)	(6,757)
Change in other assets	(11,511)	(13,320)	(7,398)	(3,945)
Change in accounts payable and other liabilities	(40,216)	(37,752)	(12,094)	(19,260)
Net cash used in operating activities	(501,149)	(453,933)	(52,445)	(110,915)
Cash Flows from Investing Activities				
Distributions from partnerships and joint ventures	67,593	—	15,568	—
Distributions of capital from partnerships and joint ventures	—	29,465	—	5,576
Distributions to minority partners of consolidated partnerships and joint ventures	(11,033)	—	(3,167)	—
Deposits to reserves for replacements	—	1,261	—	1,754
Disbursements from reserves for replacements	—	(1,577)	—	(1,669)
Purchase of partnership interest	(21,850)	(21,850)	(11,081)	(21,081)
Net cash used in investing activities	(28,245)	(55,656)	(54,958)	(70,641)
Cash Flows from Financing Activities				
Proceeds from borrowings	1,442,704	1,442,704	438,008	515,360
Advances from affiliates	—	1,010	—	9,305
Repayments of advances to affiliates	—	(1,010)	—	(9,305)
Distributions to minority partners of consolidated partnerships and joint ventures	—	(10,122)	—	(3,167)
Deferred borrowing costs paid	(11,289)	(22,074)	(9,749)	(10,027)
Other assets and liabilities	(316)	—	85	—
Net cash provided by financing activities	546,061	526,256	108,154	182,307